HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

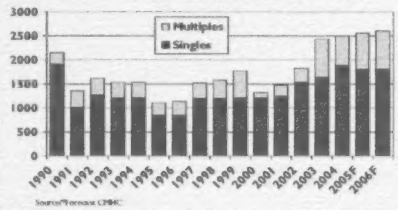
Housing Market Overview

Perfect storm for housing demand in 2005

Not since the 1980's have conditions been more favourable for housing demand in the Winnipeg CMA than over the last year. 2004 saw positive economic trends such as growth in full-time jobs and gains in average weekly earnings that have out paced inflation. These factors created high levels of consumer confidence, which, coupled with record low mortgage rates, translated into strong demand for housing. While job and wage gains are not as strong this year, the demand created last year has carried over into 2005. Population and household growth are back to levels not seen in Winnipeg since the late 1980's, these have been major factors fuelling demand for all types of housing.

Resale activity is expected to post gains in 2005, as year-to-date sales continue to outperform last year. This is thanks in part to a strong move-up market that is feeding a badly needed increase in active listings. Listings have been at record lows over the last few years restricting sales growth and this turnaround will help to ease conditions for buyers. Sellers' market conditions persist, however, and resale prices continue to post double-digit gains. Homes continue to sell quickly and the Winnipeg Real Estate Board reports that half of all homes are still selling at or above list price.

Chart #1
Single and Multiple Housing Starts



After another banner year in 2004, the total new housing starts in the Winnipeg CMA are poised to post another year of growth. This year's growth however will come from an increase in the number of multiple-family starts where, by the end of August, there were already more units started than in all of last year. There are also enough projects waiting to start construction before the end of the year that multi-starts may even set a 15-year record. This will help to keep the total number of housing starts climbing for a fifth year in a row by offsetting a potential decline in single-family starts which are currently running behind the level of activity set last year.

WINNIPEG

FALL 2005

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NEW HOME MARKET

Single-family starts drop off in 2005

After the first eight months of 2005, Winnipeg single-family housing starts are eight per cent behind what had been posted by the end of August 2004. Unless construction activity picks-up significantly before the end of the year, Winnipeg will record an annual decline in the number of single-family starts for the first time in seven years. The decline in starts activity, however, is not necessarily due to a drop-off in demand. Pent-up demand is likely still quite strong, as evidenced by the strong gains still being experienced in the resale market. Since the turn of the millennium household growth, fuelled in part by recent population gains, has outstripped growth in the housing stock two to one. As a result, tightness persists in the resale market and new homes are needed to accommodate these new households. Economic conditions feeding demand have also not changed significantly, mortgage rates are still historically low, and strong job creation from last year is still pushing demand into this year. Also, full-time job creation after the first eight months of 2005, while weak in other areas has been strong in the 45-64 year age category of the move-up market. All of these factors should point to increasing numbers of single-family housing starts.

Builders also note that demand has not dropped off and activity at this fall's annual Parade of Homes has been brisk. They point to an increasing shortage of serviced lots as the cause of the slow-down. Winnipeg has not seen a major subdivision developed since the early 1990's, and with the prolonged downturn in new home construction throughout that decade there was little pressure for developers to bring forward new land. Subdivisions laid out during 1980's were filling up slowly as the pace of construction within the city during the mid-1990's was down to 800 units per year. Now that the pace of construction has recovered many of these subdivisions are quickly reaching full build-out, particularly in the south-west quadrant.

This is evidenced by what has happened to the distribution of housing starts in Winnipeg this past year. By the end of August 2005, starts in the south-west zones of Assiniboine Park and Fort Garry were down 33% from the same period last year and market share for the south-west was only 14 per cent, down from a high of 41 per cent reached in 2002. The south-east, particularly St. Vital, has also seen a similar drop off in starts as subdivisions in this quadrant reach capacity. Market share has therefore shifted to the northern quadrants of the city where so far this year starts are up 22 per cent in West Kildonan, 54 per cent in Transcona and have more than doubled in East Kildonan. This has helped to keep starts numbers elevated and has also helped to re-balance activity in the different quadrants of the city.

Another positive characteristic to emerge so far this year is the resurgence of single-family starts activity in the older inner-city quadrants. Starts in the inner-city zones of Fort Rouge, Centennial, Midland and Lord Selkirk are almost five times what they were at this time last year. Much of this activity has been the result of the Home-Ownership Supply Program of the Canada/Manitoba/Winnipeg Affordable Housing Initiative, but demand for lots in older neighbourhoods is definitely on the rise given the overall elevated demand for housing in Winnipeg.

Starts are also lagging in the rural parts of the Winnipeg CMA where at the mid-point of the year there were 26 per cent fewer starts than last year. Much of this decline can be attributed to a drop in starts in the more active centres of East St. Paul and Taché. Here too the supply of buildable lots is dwindling, however a new phase of the Pritchard Farm development and new subdivisions in Lorette will be adding to supply in the near future. In other rural areas of the CMA such as Springfield and St. Clements, starts are still climbing. Outside the CMA but within the Capital Region, centres such as St. Andrews, MacDonald and Rockwood are also registering gains on last year, pointing to continued robust demand in the rural areas.

New developments on track for next year

With demand expected to remain elevated, fed by continued favorable economic conditions and pent-up demand, the key to the forecast next year is the availability of serviced land for homes to be built upon. Developers are working to have land available for the next construction season. Some smaller subdivisions in the north-east have recently been approved by the City and poised to begin the installation of municipal services, with lots likely to be available in the spring. In the south-east, the approval process for a major subdivision with the potential for 6,300 homes is well underway and major infrastructure works may begin this winter making serviced lots available by fall. The most complex and largest of the new developments, Waverley West in the south-west quadrant, is currently in the development stages of an area structure plan, however developers are still optimistic that lots may be available in the fall/winter of 2006.

Looking to next year, despite this year's increase in activity in the north-west, lot shortages are not expected in this quadrant as sufficient new lands will be available. There is still some supply available in the south-east as capacity remains in Island Lakes and Royalwood, this will help to meet demand in this quadrant until new lands in south St. Boniface are available in the fall. The supply situation will also be addressed in the rural municipalities of the CMA. The south-west quadrant of the city, however, will likely continue to see starts drop off dramatically next year as existing subdivisions attain full build-out. The other parts of the CMA will continue to take up the market share lost to the south-west quadrant; however this shift will not be complete and we can expect

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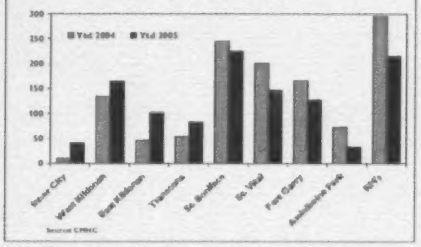
to see that the lack of available land in this area over the next year may cause some potential new home buyers to defer their decision to build until new subdivisions are available in Waverley West.

With single-family starts already slowing down in the Winnipeg CMA this year, expect 2005 to finish slightly behind 2004 with 1,800 starts. Next year will see demand for new homes remain high but the short-term serviced lot supply

Chart #2
Single-family Starts by Area
Jan-Aug 2005 vs. Jan-Aug 2004

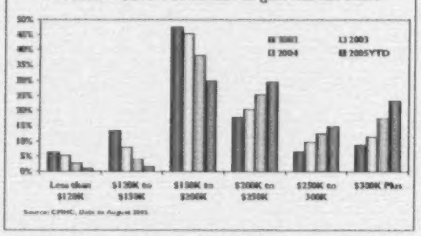


problem will hit the city during the busy summer construction season. Therefore builders will struggle to keep starts at the same level in 2006, building another 1,800 homes before enough land becomes available again in 2007 for starts to return to their upward climb.

Average new home price will continue to escalate

At the mid-point of this year, the average price of a new home in the Winnipeg CMA was $256,237, an increase of 13 per

Chart #3
New Singles by Price Range
Product > $200K continues to gain market share



cent over the same point last year. An increase in the number of homes constructed at the upper end of the spectrum has contributed to the increase in average price. Homes above $300,000 have seen the biggest increase in market share, going from 17 per cent in 2004 to 24 per cent so far this year. This serves as an indication of how strong the move-up market has been. Also, where the bulk of construction used to occur in the $150,000 to $200,000 price range, market share is now evenly split between this price range and the slightly higher $200,000 to $250,000 range. At the lower end of the spectrum, new single-family homes under $150,000 are becoming rarer and market share for this category is now down to just over three per cent.

The new home price index (NHPI) removes the compositional factor of market share in tracking price changes. Rather than the average price of all units absorbed, the NHPI tracks prices at which builders sell homes with a constant quality over time, defined in terms of location size and set of features. The NHPI released by Statistics Canada in July 2005 showed that Winnipeg saw a year-over-year increase of 6.9 per cent, the largest increase of all surveyed CMA's in the country. The average increase country-wide was 4.7 per cent, which would reflect increases in materials and labour that would have also impacted the price index in Winnipeg. A contributing factor to the above average increase in NHPI in Winnipeg is the increase in land prices. The current serviced land shortage in Winnipeg has caused the land factor of the NHPI to rise by 7.4 per cent. The average increase in the rest of Canada was 5.4 per cent.

Rising land, building materials and labour costs are going to continue to put upward pressure on house prices in Winnipeg, and one can expect average new home price to rise by close to 10 per cent both this year and next. However, the effect on demand may not be felt as severely as one might expect. Pent-up demand is still a factor and with continued limited choice in the resale market, buyers will keep turning to the new home market to meet their needs. As well, with a lot of demand coming from the move-up market, as evidenced by the growing number of more expensive homes, increases in price may continue to be accepted or built-in luxuries may be cut back or deferred to keep the home within the household budget.

Table 1
New Home Market Information
Single-Family Absorptions by Area
January - June (% Change from 2004/2005)

	Single-family			Average Price			Median Price		
CMHC's Survey Zones	2005	2004	% change	2005	2004	% change	2005	2004	% change
Zone 1: Fort Rouge	0	1	***	***	$249,000	***	.	$249,000	***
Zone 2: Centennial	2	9	-77.8%	$104,000	$98,576	5.5%	$104,000	$99,900	4.1%
Zone 3: Midland	0	1	***	***	$103,000	***	.	$103,000	***
Zone 4: Lord Selkirk	1	11	-90.9%	$169,900	$111,818	51.9%	$169,900	$103,000	65.0%
Zone 5: St. James-Assiniboia	4	1	***	$165,260	$309,000	-46.5%	$175,570	$309,000	-43.2%
Zone 6: West Kildonan	81	66	22.7%	$229,154	$187,892	22.0%	$220,000	$174,750	25.9%
Zone 7: East Kildonan	48	17	***	$204,593	$230,811	-11.4%	$189,070	$220,000	-14.1%
Zone 8: Transcona	34	20	70.0%	$185,710	$162,139	14.5%	$176,150	$160,448	9.8%
Zone 9: St. Boniface	134	96	39.6%	$256,578	$207,405	23.7%	$236,685	$194,255	21.8%
Zone 10: St. Vital	115	71	62.0%	$257,498	$204,546	25.9%	$230,000	$181,500	26.7%
Zone 11: Fort Garry	107	145	-26.2%	$290,433	$234,521	23.8%	$260,834	$217,649	19.8%
Zone 12: Assiniboine Park	47	86	-45.3%	$280,183	$276,948	1.2%	$239,900	$242,950	-1.3%
Winnipeg City	**573**	**524**	**9.4%**	**$251,263**	**$218,517**	**15.0%**	**$230,000**	**$199,000**	**15.6%**
Surrounding Rural Municipalities	181	123	47.2%	$271,982	$262,309	3.7%	$240,000	$202,300	18.6%
Winnipeg CMA	**754**	**647**	**16.5%**	**$256,237**	**$226,774**	**13.0%**	**$230,000**	**$200,000**	**15.0%**

Source: CMHC
***Indicates change greater than 100 per cent

No shortage of multiple-family starts

The serviced land shortages that are plaguing single-family starts are not an issue for the multiple-family side. Total multi-starts at the end of August numbered 609, already two units more than were started in all of 2004 and there are four months yet to go. Building permits have already been issued for another 250 units, if these projects begin construction before the end of the year, 2005 could be the best year for multiple-family starts since 1988.

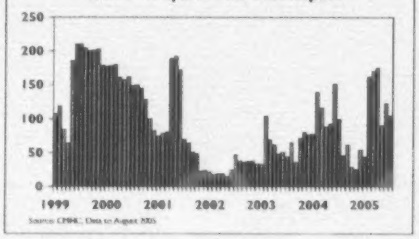
This past year has seen significant growth in condominium row housing. So far this year there have been 77 row condominium starts, the highest number of this form of housing since CMHC started keeping track in 1988. These units are still under construction so it is difficult to gauge how quickly they will be absorbed, but they should meet with some success as they provide an affordable alternative to those seeking a new home.

Despite this being the third strong year in a row for construction in the multiple-family sector, over-supply does not appear to be an issue. Most condominium units do not start construction unless a pre-sold threshold has been reached; therefore most units are absorbed immediately upon completion. With very low vacancy rates in the rental market, those units are also being absorbed briskly. As a result, multiple-family construction will hold steady in 2006 as there are still many projects in the planning stages. These projects run the gamut from luxury condominiums, seniors housing as well as market rental as there continues to be demand coming from all fronts. Multiple-family construction will therefore bolster total starts activity in the Winnipeg CMA in 2006 and post another 800 units.

Chart #4

Multi Family Inventory

Units Complete and Unoccupied



Source: CMHC, Data to August 2005

Residential MLS Sales Growth by Area

Jan–Jun 2005 vs. Jan-Jun 2004

Source: CREA, Calculation, CMHC

Zone 1	Fort Rouge	Zone 7	East Kildonan
Zone 2	Centennial	Zone 8	Transcona
Zone 3	Midland	Zone 9	St. Boniface
Zone 4	Lord Selkirk	Zone 10	St. Vital
Zone 5	St. James – Assiniboia	Zone 11	Fort Garry
Zone 6	West Kildonan	Zone 12	Assiniboine Park

RESALE MARKET

Listings bouncing back, slowly

So far in 2005 Winnipeg's resale market continues to record gains and is on pace to outperform a stellar 2004. Demand for resale homes remains strong in Winnipeg, fuelled by favourable economic conditions, continued historically low mortgage rates and population gains. After eight months of activity, year to date sales are now over five per cent greater than they were during the same period of 2004. What has helped to keep sales buoyant this year is a modest rebound in active listings. The last few years have seen active listings in the Winnipeg market steadily decline from a high of over 7,000 homes on the market in the summer of 1990 to a low of less than 700 in the winter of 2004. Since hitting a record low in February of 2004, active listings have been slowly recovering and have managed to remain above 1,200 during this year's busy summer months.

Listings have been fed by existing homeowners wanting to take advantage of recent price gains in the market and trade-up, in many cases feeding the continued growth in new home construction. The aging population is likely also contributing to the number of homes on the market as empty nesters considering a lifestyle change to multiple-family housing view the current market conditions a good time to sell. However, in the face of strong demand, homes are still being sold almost as quickly as they are being listed. The Winnipeg Real Estate Board reports that the average number of days to sale for single-family homes continues to hover at around 20 days. The rebound in listings is therefore not enough to tip the scales to a balanced market as conditions continue to favour the seller.

Double digit price increases again in 2005

With the Winnipeg resale market remaining deep in seller's market territory, prices continue to register double digit increases. At the mid-point of the year average MLS price in the CMA had reached $136,630, an increase of 12 per cent from the mid-point of last year. The Winnipeg Real Estate Board is still reporting that multiple offers are commonplace and that half the properties handled through the board sell at or above list price. While prices are increasing across the city, the increases are sharper in the inner-city zones where the average median price is up 14 per cent. In the suburban areas prices are up 11 per cent on average.

The move-up market is definitely having an impact on average price as sales in the upper price ranges have seen the biggest increases in market share. While the mid-range of $120,000 to $160,000 sees the largest market share at almost 30 per cent of all single-family home sales, homes priced above $200,000 have seen the greatest growth. At the mid-point of 2005 sales in this category were up 48 per cent in comparison with the same time period last year and market share has increased from 12 per cent to 18 per cent of all sales. At the other end of the spectrum sales have been declining. With it becoming more and more difficult to buy a home in Winnipeg for less than $40,000, sales in this category are down almost

30 per cent compared to last year, and market share is down to only five per cent of all sales, half of what it was just two years ago.

Chart #5
Single-Family MLS Sales
Market share by price range

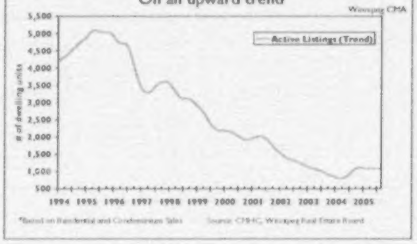
Sales will remain strong in 2006

The remainder of this year will see residential MLS sales continue to keep pace with last year and reach 11,700 units. This represents an increase of eight per cent over 2004 and will make 2005 the best year for sales in recent history, according to records going back to 1980. Looking to next year, demand for resale homes will be affected by several factors that will have both positive and negative effects on housing demand. On the positive side, thanks to a turnaround in net migration, Winnipeg has recently experienced population and household growth rates not seen since the late 1980's, this phenomenon is not expected to slow in 2006. Also, with sales currently being restricted by a lack of supply in the market, there is still a significant amount of pent-up demand that must be satisfied. This pent-up demand will carry over into next year keeping sales at a high level. On the negative side, although employment growth in 2005 so far has been slightly better than in 2004, gains have been stronger in part-time employment to the detriment of full-time jobs which may soften housing demand in 2006. A bright spot is that the biggest full-time job gains have been in the 45-64 year age category which will continue to fuel demand in the move-up market. If more existing homeowners in this group decide to make the leap to a more expensive home and sell their current homes this will help to add much needed supply in the mid-range of the market. This increased supply will help to satisfy some of the above mentioned pent-up demand and will help to propel sales beyond 2005 levels.

Rising prices and forecast higher interest rates may put a damper on demand as some first-time home buyers will begin to be priced out of the market. However, the fundamentals are still in place to keep demand strong in the face of rising prices. Winnipeg will continue to see positive in-migration, employment levels will remain high and mortgage rates will still be considered low by historical standards. With expected additional activity in the move-up market, new listings may begin to grow in the entry and mid-price ranges where many first time buyers have been awaiting greater selection.

The positive factors are expected to outweigh the negatives during the forecast period and sales will continue to climb in 2006 reaching 12,500 units, for an annual increase of seven per cent over 2005.

Chart #6
MLS Active Listings Trend
On an upward trend



Market to favour the seller in 2006

Despite increasing supply, sellers' market conditions will continue to prevail in 2006. Household growth has outstripped the growth of the housing stock in Winnipeg for the last several years which has contributed to the erosion of the supply of active listings in the resale market. While active listings have started to rebound recently they are far from approaching the levels required to return to balanced conditions. As a result there will continue to be upward pressure on prices. Average resale price is on pace to top $135,000 by the end of 2005, an increase of 11 per cent over 2004 and the third consecutive year of double digit increases. While, conditions are not expected to change significantly in 2006, the upward trend in listings is expected to continue. This will help to ease the situation for buyers who will begin to have more choices and won't be under as much pressure to out-bid each other for preferred properties. A slight improvement in supply as well as a softening of demand brought on by a modest increase in mortgage rates will moderate price growth over the next year. Increases, however, will continue to outpace inflation with average price expected to hit $146,000 in 2006, an increase of eight per cent over 2005.

Spotlight on Winnipeg Resale Prices

After three consecutive years of double digit price increases, how do Winnipeg house prices stack up against other Canadian cities? Winnipeg has not been the only centre in Canada to see these kinds of rising prices. Victoria currently leads the country with a year-to-date price jump of 17 per cent. While Winnipeg is next in line, the centres of Regina, Vancouver, and Calgary have also seen price increases near 12 per cent. At the mid-point of 2005, average resale price in Winnipeg was $136,630, the Canadian average was $251,043, close to double. Thanks to a large stock of older, lower-priced homes, Winnipeg housing prices are still rank among the lowest in the country. Out of the 11 largest Canadian Census Metropolitan Areas, Winnipeg has the second lowest average price after Regina. The last ten years have seen Canadian house prices increase by 62 per cent; this translates to a six per cent increase per year. While Winnipeg house prices have increased substantially over the last few years, this was preceded by a long period of very flat price growth and, taken over the same ten year period, the increase in Winnipeg average resale price has kept pace with the nation.

Chart #7
Average Resale Price, Major Canadian CMA's

RENTAL MARKET

Influx of new renters keeps apartment vacancies low

When the results are tabulated on CMHC's Rental Market survey this fall, not a lot change in the vacancy rate is expected. Conditions that have led to a dropping vacancy rate over the last few years persist. Demographic conditions and household growth in particular has had the biggest impact on the rental market. Recent population growth has come mainly from international immigration, and, as recent arrivals to the city, most of these immigrants will look first to rental accommodation before turning to home-ownership. Studies from Statistics Canada also show that international immigrants also have a higher propensity to rent for a three to 10 year period after their arrival to Canada. We therefore now have more new renters in Winnipeg who are expected to remain in rental accommodation. Also, when looking at net-migration to the city in general, domestic and international, the biggest group of new arrivals is in the 18 to 24 age category, this is the age group that is most likely to seek rental housing. Immigration numbers are not expected to drop dramatically over the forecast period, thanks to an aggressive campaign to attract workers to Manitoba through the Provincial Nominee Program. Therefore, a steady flow of new renters will be entering and staying in the Winnipeg market keeping vacancy rates low.

Another demographic factor bringing new renters into the market is the overall aging of Winnipeg's population. On the one hand there is the first wave of children of the baby boomers, the echo generation, who are now reaching household formation age. They are expected to move into rental accommodation before looking to the homeownership market. On the other end of the spectrum is the senior's market. As this population ages many look to make a lifestyle change, giving up their single-family dwellings with the associated upkeep and maintenance and favouring multiple-family living. While many opt for the condominium market many will also opt for rental accommodation looking not only at housing complexes geared for seniors, but also looking to open market rental.

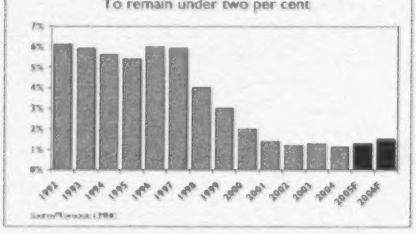
Low mortgage rates over the last few years have encouraged many renters to enter the ownership market. Over the same period, housing prices in Winnipeg have seen double-digit increases which are not expected to slow considerably over the forecast period. These price increases had been cushioned by dropping mortgage rates, however that cushion is no longer there as mortgage rates are forecast to rise, albeit modestly over the next year. Therefore the increasing carrying cost of owning a home may delay some renters from making the leap to homeownership. On the positive side, those renters who could afford to buy a home and had been hampered by a lack of available listings may find themselves with more selection in the coming year as active listings continue their rebound thanks to activity in the move-up market. This may help to free up rental units that will help to accommodate the constant influx of new renters.

There have been recent additions to the rental market universe through new construction that will now be part of CMHC's annual survey this fall. These additions are expected to have a localized impact and raise vacancy rates, especially in the north-west where most of the new construction has occurred. However these additions will not be enough to completely offset the increasing demand for rental accommodation. Therefore it is expected that the vacancy rate will be only slightly higher for the 2005 survey, rising to 1.3 per cent. Looking to next year, while there will be more opportunity for renters to jump to home ownership and free up units, additions to the universe through new construction will be more modest, and the influx of new renters will remain high, therefore vacancy rates will continue to hover above one per cent at 1.5 per cent.

Chart #8

Apartment Vacancy Rate

To remain under two per cent



Rents to increase in 2005

Each year the Provincial Minister of Consumer and Corporate Affairs, through the Residential Tenancies Branch, sets a rent increase guideline which applies to the majority of Winnipeg's rental stock. In 2005 that guideline was set at 1.5 per cent, identical to the 2004 guideline. In 2006, beginning January 1, the new guideline will be 2.5 per cent.

With the vacancy rate remaining low, landlords have likely increased rents to the full extent of the 1.5 per cent rent control guideline this year. The fall survey results are expected to show average rents rising at a higher rate however due to a number of factors. The Residential Tenancies Branch has continued to receive applications from landlords to increase rents at a rate above the guideline to cover increases in operating and maintenance costs. The newly constructed units added to the inventory this year are at the upper end of the spectrum which will have the effect of pushing up overall average rents. Rehabilitated units added back to the universe in recent years will continue to enjoy an exemption from the guideline and landlords may raise rents above the 1.5 per cent rate. Therefore, overall, rents are expected to increase by more than the guideline and go up another 2.5 per cent in 2005, bringing the average rent for a two-bedroom apartment up from $664 to $680 per month. In 2006, while the guideline has been set higher to reflect an increase in the rate of inflation, operating and maintenance costs for the landlord will likely increase at a greater rate given the advancing age of Winnipeg's rental stock. It is therefore expected that landlords will continue to apply for exemptions and rents will increase at a rate slightly greater than the 2.5 per cent guideline.

ECONOMIC OVERVIEW

Solid market fundamentals driving housing demand

The last few years have seen economic conditions in Winnipeg that were extremely favourable to the housing markets. In 2004, Winnipeg experienced an addition of 5,700 jobs, an increase of 1.5 per cent, and just slightly above the ten-year average. All of this job growth came from full-time employment, an important factor in the decision to purchase a home. Most manufacturing sectors saw increases in the number of persons employed as did the construction sector. Gains were not as impressive in the service sectors, however significant increases in employment could be found in Public Administration and Health Care. These increases in full-time employment in some of the higher paying sectors translated to significant gains in average weekly earnings which, on average, went up almost five per cent for all industries. So far this year, while almost 2.200 jobs have been created, most of these have been part-time, with job losses being felt in full-time employment. This may help to explain why average weekly earnings in Winnipeg have not repeated the same kind of gains as in 2004. Year-to-date, earnings are up by just over half of a percentage point, much less than the current rate of inflation of 2.6 per cent. This may have a softening effect on demand as we move forward into 2006. There have, however, been significant gains in full-time employment in the 45 to 64 age category. This will likely have a positive impact on the move-up market, where many homebuyers consider the construction of new home.

Looking to the forecast period, employment is expected to maintain a growth rate of around one per cent as the manufacturing sector continues to show strength. The construction sector should also see employment gains as several projects ramp into full production such as the new Manitoba Hydro building and the Floodway expansion.

With more people employed and earning more money, consumer spending was up last year. Provincially retail sales were up 6.7 per cent, the second highest rate among provinces. With an increase in people's propensity to spend and with mortgage rates continuing to hover at 50-year lows, housing markets were kept extremely busy. After six months of activity in 2005, retail sales activity in Manitoba does not appear to be slowing down, gaining an additional 6.4 per cent over last year, and higher than the Canadian average of 6.2 per cent. This would indicate that consumers have not yet lost their penchant for spending and will likely to continue to take advantage of the low mortgage rates available in the housing market.

Pent-up demand contributes to housing markets in 2006

Demographics have also been a key driver of housing demand over the last few years. Net migration in Winnipeg has turned a corner, going from losses of close to 3,000 persons per year in the mid 1990's to a gain of 3,700 persons last year. Fuelling this population growth has been the attraction of international immigrants to the province through the Provincial Nominee Program. Given the province's low unemployment rate and the program's focus on targeting immigrants with desired skill sets, the rise in immigration has been the key to fuelling employment growth. With most new immigrants able to find employment when they settle, they have had a positive impact on housing demand.

Also contributing to demand is the current rate of household growth. The first wave of the echo generation (the children of the baby boomers) is reaching household formation age and family size is declining. As a result the number of households in Winnipeg has been growing at an even faster rate than the population. In fact, the number of new households in Winnipeg over the last few years has outnumbered the number of new homes two to one. The impact of this has been felt in the tightening of both the rental and resale markets as well as the robust pace of construction in the new home market. With home builders unable to keep up with current growth rates, and with demand created by several years of positive economic conditions, there is still a significant amount of growth required in the housing stock. Therefore as we look to the forecast period, not only will the ongoing positive economic climate create new demand in the housing markets, but pent-up demand from the last few years is also waiting to be satisfied.

MORTGAGE RATE OUTLOOK

Short-term mortgage rates move in tandem with the prime rate while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets.

Posted mortgage rates are forecast to rise moderately as interest rates head up in 2005 and 2006. However, tame inflation, a strong Canadian dollar vis-à-vis the U.S. dollar, and slower economic growth in Canada will restrain the size and speed of Canadian interest and mortgage rates increases in the next two years.

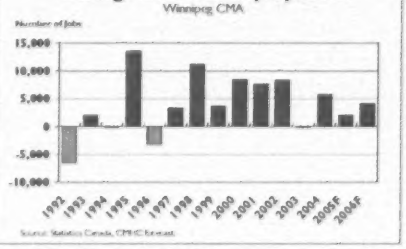
Short-term mortgage rates are expected to be 25-35 basis points higher in 2005 than in 2004 while longer-term rates will be lower by a similar amount in 2005 compared to the previous year. While still low by historical norms, mortgage rates are expected to rise gradually by 25- 50 basis points in 2006. One, three and five-year mortgage rates are forecast to be in the 4.50-5.75, 5.25-6.25, and 5.50-6.50 per cent ranges respectively in 2005-06. However, rising posted mortgage rates may not necessarily lead to higher mortgage rates negotiated between borrowers and lenders.

Key risks to the forecast are continued strength in the Canadian dollar against the U.S. currency and sustained upward pressure on oil prices. A strong Canadian dollar adversely impacts exports and output, while heightened energy prices will weaken economic growth globally. This could delay the tightening of monetary conditions, especially in the U.S. where they deal with the fallout of Hurricane Katrina.

Chart #9

Change in Total Employment

Winnipeg CMA



CMHC FORECAST SUMMARY

Winnipeg Housing Market Outlook - October 2005

	2002	2003	%Chg	2004	%Chg	2005*	%Chg	2006*	%Chg
RESALE MARKET									
MLS®(1) new listings (Monthly Avg.)	1,062	1,001	-5.7%	1,098	9.7%	1,200	9.3%	1,400	16.7%
Total MLS® Sales	9,881	10,201	3.2%	10,797	5.8%	11,700	8.4%	12,500	6.8%
Average MLS® Price	$98,054	$108,812	11.0%	$121,925	12.1%	$135,000	10.7%	$146,000	8.1%
NEW HOME MARKET									
Starts									
Total	1,821	2,430	33.4%	2,489	2.4%	2,550	2.5%	2,600	2.0%
Single-family	1,528	1,641	7.4%	1,882	14.7%	1,800	-4.4%	1,800	0.0%
Multiple-family	293	789	169.3%	607	-23.1%	750	23.6%	800	6.7%
Average New House Price									
Single-family	$198,382	$216,458	9.1%	$232,032	7.2%	$255,000	9.9%	$280,000	9.8%
RENTAL MARKET									
Vacancy rate (Oct)	1.2%	1.3%		1.1%		1.3%		1.5%	
2-bedroom Rent (Annual % Chg)	2.8%	3.7%		3.0%		2.5%		3.0%	
ECONOMIC OVERVIEW									
Mortgage rate (3 yr term)	6.28	5.79		5.65		5.64		6.00	
Mortgage rate (5 yr term)	7.02	6.39		6.23		6.05		6.38	
Employed	370,900	370,600	-0.1%	376,300	1.5%	378,000	0.5%	382,000	1.1%
Employment growth (# jobs)	8,300	-300		5,700		2,000		4,000	
Net-migration (Census Year [2])	1,145	1,667	45.6%	3,747	124.8%	2,500	-33.3%	3,000	20.0%

* CMHC Forecast

Source: CMHC, Statistics Canada, Canadian Real Estate Association

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

2 May 1 to April 31 period

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